

McDonald's
Corporation
annual
report 1970

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CORPORATION FILE





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Highlights of 1970 and 10 year comparison

	1970	1969	1968
Sales of all Licensed and Company-owned outlets	\$587,041,000	450,825,000	335,411,000
Revenues:			
Sales by Company-owned outlets	\$146,817,000	107,340,000	80,249,000
Rental income	\$ 32,120,000	23,937,000	17,498,000
Service Fees	\$ 9,971,000	7,532,000	5,521,000
Other income—net	\$ 4,341,000	4,527,000	3,221,000
Total Revenue	\$193,249,000	143,336,000	106,489,000
Income before federal income taxes	\$ 32,284,000	25,058,000	18,071,000
Net income	\$ 17,691,000	13,093,000	9,668,000
Net income per share**	\$ 1.48	1.16	.86
Average Common shares outstanding	11,858,770	11,101,497	11,018,005
Stockholders' equity	\$108,354,000	51,047,000	38,070,000*
Total number of outlets at end of year	1,592	1,298	1,087
Licensed	1,208	1,045	885
Company-owned	384	253	202
Total assets	\$246,816,000	149,211,000	110,427,000*

Notes:

*Stockholders' equity and total assets have not been restated (1) for the 1964 through 1966 years to reflect the 1968 through 1970 poolings, (2) for the 1967 year to reflect the 1969 and 1970 poolings, and (3) for the 1968 year to reflect the 1970 poolings.

Data for 1961 through 1963 have not been restated to include the accounts of outlets acquired in poolings of interests in 1970 (44 outlets), 1969 (22 outlets) or 1968 (15 outlets). Data for 1964 has not been restated to include the accounts of the outlets pooled in 1970. In addition, operations of the 1968 acquisitions are not reflected in revenue or income reported for 1964 through 1966, which operations would not have a material effect on the figures which are not restated.

**Net income per share is based on average common shares outstanding after giving retroactive effect to subsequent stock splits and stock dividends and dividend requirements on preferred stock.

1967	1966*	1965*	1964*	1963*	1962*	1961*
266,368,000	218,507,000	170,865,000	129,591,000	97,978,000	76,264,000	54,253,000
46,045,000	35,003,000	30,155,000	19,131,000	10,595,000	6,960,000	2,544,000
13,869,000	11,242,000	8,537,000	6,828,000	5,197,000	3,740,000	2,462,000
4,709,000	3,913,000	2,965,000	2,264,000	1,747,000	1,359,000	992,000
1,630,000	2,089,000	1,571,000	866,000	572,000	351,000	277,000
66,253,000	52,247,000	43,228,000	29,089,000	18,111,000	12,410,000	6,275,000
11,985,000	8,361,000	6,555,000	3,677,000	1,834,000	858,000	133,000
6,890,000	4,904,000	3,795,000	2,136,000	1,049,000	439,000	16,000
.61	.47	.40	.23	.11	.05	.001
10,925,242	10,436,631	9,472,841	9,311,863	9,180,000	9,180,000	9,180,000
28,270,000*	21,576,000*	7,155,000*	3,753,000	1,735,000	687,000	671,000
967	862	738	657	550	439	323
778	720	597	529	487	384	297
189	142	141	128	63	55	26
81,161,000*	53,562,000*	33,416,000*	24,791,000	21,855,000	18,055,000	13,214,000

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The photograph on the cover of this annual report and most of those illustrating the body of the report are by Archie Lieberman, an award-winning photo-journalist. He was given the assignment to show McDonald's "as it is", and that is what he did. All of his photos are candid shots of real people; none were posed by models.

Mr. Lieberman has covered assignments for Look, Time, and Holiday, and his photography involving some of the world's leading personalities is familiar to millions of magazine readers.

Mr. Lieberman is the author and photographer of a book selected by the Chicago Book Clinic 17th Annual Exhibit as Top Honors Book, and was chosen for an Annual Best 50 Books Award for 1965. His pictures are in the permanent collection of the Metropolitan Museum of Art, New York, and other museums and have been included in numerous other exhibits.

Archie Lieberman



Message from management

McDonald's Corporation celebrated its 15th year with the following achievements:

Record sales by Company-owned and licensed outlets of \$587,041,000.

Corporate revenues of \$193,249,000 and net earnings of \$17,691,000 for the year ended December 31, 1970.

Serving the six-billionth McDonald's hamburger in May, 1970, and the seven-billionth at year end.

Opening a record 297 new restaurants, including the Company's 1,500th store in Concord, New Hampshire, in September.

Topping out McDonald's Plaza, our new world headquarters building in Oak Brook, Illinois, a Chicago suburb.

Surpassing the \$100,000,000 mark in Stockholders' equity, reaching \$108,000,000 at year end.

Your Management is pleased to report that in 1970 the Company enjoyed record net earnings of \$17,691,000, an increase of 35 per cent over 1969's net of \$13,093,000. Per share earnings in 1970 were \$1.48, compared with \$1.16 in 1969, an increase of 28 per cent. The difference in percentage increases of earnings and earnings per share is principally related to issuance of shares in connection with the acquisition of Canadian markets in 1970.

Sales for all licensed and Company-owned outlets increased 30 per cent, reaching \$587,041,000 for 1970, compared to \$450,825,000 in 1969. Gross revenues totalled \$193,249,000, up 35 per cent over the preceding year's gross \$143,336,000. The sources of gross revenues are sales by Company-owned restaurants, rental income, service fees, initial location and license fees, gains on sales of Company-owned outlets, interest and other income. Company does not sell food, supplies, or equipment to its licensees.

Individual restaurants continued to achieve new growth records, as the 1970 average

volume per store *increased \$39,000* over the 1969 mark. Just six years ago we announced the formation of the "over \$500,000 club." At that time, just one store was eligible.

Membership in that select group was earned in 1970 by 310 stores, compared to 183 in 1969. During the year, 13 stores grossed more than \$800,000 and one restaurant reported sales of \$1,114,529. We served our seven billionth hamburger in 1970 and now serve more than four million hamburgers daily through 1,592 stores in the United States, Canada, Puerto Rico and the Virgin Islands.

Thanks to our commitment to steady, yet selective growth, we opened 297 new stores during 1970, including Anchorage, Alaska; St. Croix, Virgin Islands; San Jose, Costa Rica. Our six stores in Puerto Rico will be joined this year by four new outlets, and, on the other side of the globe, construction is underway on our first store in Guam.

During the year, 79 McDonald's stores and the seller's rights in three licensed outlets were acquired from licensees. Forty-six were acquired in the United States; 44 through poolings of interests, and two by purchase. In Canada, McDonald's purchased 33 stores and the licensor's interest in three licensed outlets. Domestic acquisitions included ten stores each in the state of Hawaii and in Toledo, Ohio; ten stores in the combined Albany, Schenectady and Ithaca, New York markets; six in Dayton, Ohio; five in Madison, Wisconsin; and one each in Aurora, Illinois; Ann Arbor, Michigan; and Richmond and Indianapolis, Indiana; and Miami, Florida. The results of our domestic acquisitions have been gratifying.

During 1970 your Management determined to accelerate McDonald's growth and penetration in Canada in order to more fully realize the potential available in that country. The Company increased its ownership of its licensee in the western Canadian McDonald's operation, and acquired the remaining 80 per cent interest of its licensee in eastern Canada in 1970. In early 1971 we completed acquisition of the remaining 22 per cent interest of the

western Canadian licensee. In the Maritime Provinces we determined that joint venture arrangements would continue to be suitable. The 1970 Canadian acquisitions reduced earnings for the year by six cents per share. These losses were related primarily to establishing five new markets in Canada. Canadian operations for 1971 are expected to be profitable.

At year end approximately 24 per cent of McDonald's restaurants, including those stores located outside the United States, were Company-owned and operated. We continue to endorse the concept and benefits of licensing, and, in the years ahead, we shall continue to issue licenses for the majority of the new McDonald's stores developed in the United States.

In March, 1971 we occupied three floors of McDonald's Plaza, our new world headquarters in Oak Brook, Illinois, in order to accommodate our substantially increased growth over the past several years as well as to provide flexibility for our needs in the future. The remaining five floors will be leased when completed mid-year.

In December, we successfully marketed a secondary issue of 469,620 shares of McDonald's Corporation common stock, and a primary issue of 250,000 shares sold by the Company. Proceeds from sale of the Company's shares will be used for the acquisition and development of new store locations. Proceeds from sale of the other shares did not accrue to the Company. These sales did not dilute the Stockholders' interest in the Corporation.

Stockholders' equity in your Company surpassed \$100,000,000 in 1970 to reach \$108,000,000 at year end. Contributing to this milestone was the conversion in February, 1970, of the \$20,000,000 4 1/4 per cent Convertible Subordinated Debentures due 1993; the \$10,430,000 in proceeds from the sale of 250,000 shares of the Company's common stock, and the year's net income of \$17,691,000.

June Martino



Current assets doubled from \$36,500,000 to \$72,700,000; net property, plant and equipment increased during the year from \$95,800,000 to \$143,500,000.

It is with regret we report the announcement of June Martino's decision not to stand for re-election to the Board of Directors of the Company for 1971. The Management of the Company wishes to express its gratitude for her selfless devotion, loyalty, and her numerous and substantial contributions to the growth and development of the Company from its very earliest days to the present. So that the Company may continue to benefit from the unique qualities that enabled her to serve with such distinction as Secretary, Treasurer, and Director of the Company, the Board has appointed her as an Honorary Lifetime Member of the Board of Directors of McDonald's Corporation. She will continue to offer her able advice and counsel in her role as a Consultant to the Company.

In other major personnel changes during the year, Edward H. Schmitt, Vice President—Midwest Region, was elected Executive Vice President with responsibility for coordinating regional operations. Edward Lifmann, Director of International Operations, was named Vice President.

Other programs implemented during the year which contributed not only to our successful results for 1970 but which will have even greater impact in the years ahead include the introduction of new architectural concepts, innovative and relevant advertising and marketing programs, and an increased involvement in local community affairs. Details of these activities are discussed in later sections of this report.

Your Directors and Officers are proud of each of our licensees and of the 72,000 men and women employed by them and your company. Thanks to their steadfast loyalty and hard work, we are confident that McDonald's will continue to enjoy the favor of more and more of those for whom our business is designed—our customers.

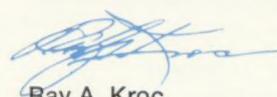
Fred L. Turner and Ray A. Kroc



Our annual meeting will be held at 10:00 a.m. Wednesday, May 5, 1971, at Hamburger University, 2010 Higgins Road, Elk Grove Village, Illinois. You are cordially invited to attend.



Fred L. Turner
President and
Chief Administrative Officer



Ray A. Kroc
Chairman and
Chief Executive Officer





Management

Directors	Ray A. Kroc	Chairman of the Board, Chief Executive Officer
	Fred L. Turner	President, Chief Administrative Officer
	Richard J. Boylan	Senior Executive Vice President, Chief Financial Officer, Treasurer
	Norman D. Axelrad	Vice President, Secretary, General Counsel
	Donald G. Lubin	Partner-Sonnenschein Levinson Carlin Nath & Rosenthal, Chicago
	J. R. Simplot	President—J. R. Simplot Company, Boise, Idaho
	Allen P. Stults	Chairman of the Board— American National Bank and Trust Company of Chicago
	David B. Wallerstein	Business Consultant
	June Martino	Honorary Director
Officers	Ray A. Kroc	Chairman of the Board, Chief Executive Officer
	Fred L. Turner	President, Chief Administrative Officer
	Richard J. Boylan	Senior Executive Vice President, Chief Financial Officer, Treasurer
	Steven J. Barnes	Executive Vice President, President International Division
	G. Brent Cameron	Executive Vice President
	C. J. Lynch, Jr.	Executive Vice President
	James C. Schindler	Executive Vice President—Design
	Edward H. Schmitt	Executive Vice President
	Paul D. Schrage	Executive Vice President
	Norman D. Axelrad	Vice President, Secretary, General Counsel
	Donald R. Case	Senior Vice President—Real Estate
	Burton D. Cohen	Assistant Secretary
	John D. Cooke	Vice President
	John Coons	Regional Vice President
	Donald F. Devitt	Regional Vice President
	Seymour Greenman	Assistant Secretary
	Bernard T. Hall	Regional Vice President
	H. Cliff Hullender	Regional Vice President
	Edward Lifmann	Vice President
	Gerald Newman	Vice President, Controller
	Robert A. Papp	Vice President
	Robert B. Ryan	Vice President, Assistant Treasurer
	Luigi Salvaneschi	Vice President
	James D. Zien	Vice President
	George Cohon	President, Canadian Division

Corporate headquarters McDonald's Corporation One McDonald's Plaza Oak Brook, Illinois 60521

Regional offices

Atlanta, Georgia
Boston, Massachusetts
Chicago, Illinois
Columbus, Ohio
Los Angeles, California
Washington, D. C.

Transfer agents

Bankers Trust Company
485 Lexington Avenue
New York, New York 10017

American National Bank and
Trust Company of Chicago
33 North La Salle Street
Chicago, Illinois 60690

Registrars

The Bank of New York
48 Wall Street
New York, New York 10015

The Northern Trust Company
50 South La Salle Street
Chicago, Illinois 60690

Growing for the 70's

Record sales and earnings posted by your Company during 1970 reflect management decisions and actions consistent with our plans for accelerated growth.

And the results achieved by our people for the year demonstrate that we will continue to benefit from the conscientious efforts of all who directly and indirectly serve our millions of customers.

Because your Company is dedicated to attracting, serving and keeping new customers every day, well-conceived programs of construction and remodeling, expansion, marketing and public involvement were instituted or developed during the year.

In addition, we continued to emphasize Quality, Service and Cleanliness—QSC—as the key to our growth and success.

The objective of each program is to further strengthen the public's acceptance and awareness of McDonald's in the increasingly competitive marketplace.

The programs include:

Construction of new stores and conversion of old-style stores, in line with our new architectural standards;

Expansion of McDonald's operations domestically and internationally;

Promotion of McDonald's through new advertising approaches and intensified market research; and,

Emphasizing the responsibilities of each store to its community.

Each program is another opportunity to fulfill our commitment to growth.

Building for the 70's

New architectural designs established within the past two years have been widely acclaimed by civic groups, women's clubs and other organizations whose opinions are important to our acceptance in their communities.

In addition, we have developed plans for remodeling old-style stores to conform to our new design and are encouraging our licensees to join our conversion program.

Major remodeling programs may include

McDonald's Plaza, our new world headquarters building constructed during 1970, enjoys the freedom of a ten-acre site in suburban Oak Brook, Illinois, near Chicago. Oak Brook is one of the most prestigious suburban business centers in the area.



new brick exteriors and larger interiors for indoor seating, where appropriate. The investment, which averages \$50,000, may range from \$25,000 to \$125,000 and is borne by the licensee and, in the case of Company-owned stores, by the Corporation.

More than 100 projects, including 45 completed major remodeling programs, were initiated in 1970. Indoor seating was provided in 46 of the stores.

During 1969, the first year of the program, 33 projects were undertaken.

Those who have remodeled report that the investment produces greater sales almost immediately, especially when "Sorry to Inconvenience You" and "Grand Re-Opening" promotions call attention to the attractive and more spacious new building.

As part of our new emphasis on beautification, professional landscapers are used by our restaurants to plan parking area gardens utilizing flowers and shrubs native to each area.

Your Corporation also sponsors an annual landscaping contest among all stores to encourage owner-operators to beautify their property.

Expanding for the 70's

Along with the record 297 stores opened during 1970, two stores moved to new locations and one store was closed because its land was taken for a highway.

In addition to the 1,592 stores now in operation, 83 were under construction at year end.

During the year we placed greater emphasis on developing in-town restaurants, which we call McDonald's Townhouses. These are store-front outlets in urban communities where there is no need for parking areas.

More than a dozen Townhouses are operating in major cities, including Chicago, Philadelphia, Boston, Washington, Los Angeles, Oakland, Pittsburgh and Las Vegas.

We believe these new stores give us yet

top Chairman Ray A. Kroc and President Fred L. Turner autographed the final beam in McDonald's Plaza before it was hoisted to the top of the eight-story building. The impressive structure was topped out in the fall of 1970, and we occupied three floors in March of this year. The remaining space is being leased.

below One of the year's proudest moments came when New Hampshire's Governor Walter Peterson, second from left, joined licensees Eugene O. Colley, left, and Richard P. McCoy, right, and Ray A. Kroc in ribbon cutting ceremonies for our 1,500th restaurant. The store, opened in September, is in Concord, N.H.



another opportunity to capitalize on our well established reputation for serving all parts of urban America.

Plans completed during 1970 will result in the 1971 opening of our first overseas outlets in the Netherlands; Munich, Germany; Tokyo, Japan; and Australia.

Netherlands stores will be owned and operated by a joint venture with Albert Heijn, that country's leading supermarket and grocery store chain.



In Germany, our International Division will concentrate on initial development in Munich, and has established a wholly-owned subsidiary, to open and operate restaurants there.

McDonald's will enter the Japanese market through a joint venture with Daiichiya Baking Company and Fujita & Co., Ltd.

A wholly-owned subsidiary will operate and license stores in Australia.

At home, our new world headquarters building, McDonald's Plaza in suburban Oak Brook, Illinois, was topped out in the fall of 1970. The focal point of a spacious ten-acre site, the new building offers eight floors of space in the most prestigious suburban business center in the Chicago area.

Marketing for the 70's

Our potential market is growing constantly and we look to the future with great optimism. Most of our customers are young married couples with small children. The "baby boom" of the 1950's has matured to the present young adult boom. In the 1970's it is anticipated that the 20 to 24 year old age group and the 25 to 30 year old age group will increase by more than 30 per cent and 55 per cent respectively. In 1980 the 25 to 34 year old age group is expected to command 26 per cent of total consumer spending power. And this group has been exposed to the self-service convenient food concept since childhood!

And therefore it is no surprise that our share of the eating-out dollars, too, has been increasing at a steady pace. Based on U.S. Department of Commerce figures, in 1970 about \$2.10 of every \$100 spent on food and beverages outside the home were spent at McDonald's. This compares with \$1.70 in 1969, \$1.22 in 1968 and 79 cents in 1967. Part of this increase comes, of course, from the increase in the number of McDonald's outlets.

Our marketing efforts, aimed at improving our competitive position through a number of approaches, also demonstrate that a McDonald's restaurant is a local business as well as part of a nationwide chain.

Our new Townhouses, store-front McDonald's restaurants without parking areas, are located in major urban areas, such as this one in Oakland, California.



In 1970, McDonald's conducted extensive surveys in each of our six regions to determine who our customers are, what they like—and what they don't like—about McDonald's, and how we compare with our competitors.

Combining the results from all six regions gave us a representative sample of what consumers throughout the country think about McDonald's and about our industry.

Information developed from the surveys is incorporated into our marketing plans at local, regional and national levels.

We also assisted individual stores in conducting surveys of their customers and markets. Information about local markets is particularly useful in determining advertising and promotional needs.

In addition to advertising in their respective markets through local cooperatives and 63 local advertising agencies throughout the country, our licensees join forces in a national voluntary cooperative program, OPNAD Fund (Operators National Advertising), with the

The familiar red-and-white tile McDonald's is typical of the four stores in Ft. Wayne, Indiana, before an extensive remodeling program took place.

Corporation, to purchase national advertising.

In 1970, your Company and individual restaurants invested more than \$25 million in national and local advertising.

To ensure that national and local efforts achieve the greatest impact, your Corporation plans national advertising strategy and pays for creative services and production. The licensees and company-owned stores purchase local market space and time to complement national OPNAD and Corporate advertising.

During the year, we retained Needham, Harper & Steers, Inc., as our new advertising agency. A new and contemporary concept in children's television, "McDonaldland," was created. It's the home of our famous clown character, Ronald McDonald, and has a hamburger thatch, a Filet-O-Fish lake, a soft drink waterfall, and chocolate, strawberry and vanilla milkshake volcanoes!

Our new adult advertising theme, "You deserve a break today—So get up and get away to McDonald's" says that everybody deserves a break—in routine and in the good food values from McDonald's. And it issues a clear invitation to come visit us.

One of our Ronald McDonald advertisements was rated among the best ads of 1970 in trade competition, and a current television commercial with our "McDonald's puts good food in your family and change in your pocket" theme was singled out for excellence.

In public relations and sales promotion, McDonald's All-American High School Band again starred in Macy's Thanksgiving Day



Remodeling in Fort Wayne, Indiana, gave the four McDonald's a new look by creating a warmer, more tasteful atmosphere, through use of wood and brick design. Patio seating was added and the service area space was increased.

Extensive landscaping added to the beautification program, and appreciable sales increases were evident immediately after the grand re-opening.



Ronald McDonald, our delightful clown, and two of his equally delighted young friends stroll through the world's friendliest hamburger thatch. It's at McDonaldland, the setting of a new series of TV commercials created for children.

Chairman Ray A. Kroc and Lewis Shingler, President of the Tournament of Roses, lead the pre-Rose Bowl "Band Time," a contest for high school bands from across the nation. McDonald's All-American Band escorted Mr. Kroc and Mr. Shingler past network television cameras and to the reviewing stand.



parade in New York City and in the Tournament of Roses parade in Los Angeles on New Year's Day.

Ray A. Kroc, Chairman, was invited by the Tournament of Roses committee to present a trophy, on network television, to the winner of the high school band competition.

Our All-American Band is composed of 101 high school musicians representing all 50 states and the District of Columbia. Selection of band members is made from nominations by more than 30,000 high school band directors.

Paul Lavalle, Musical Director of Radio City Music Hall and Director of the All-American Band, heads the selection committee.

Examples of local community involvement are as varied as there were opportunities to be of service during the year.

McDonald's licensees played host at parties and picnics for children in hospitals and orphanages and for elderly persons in "Golden Age" clubs.

They donated orange drinks, and the use of

the "Orange Bowl" from which to serve them, to charitable groups for fund-raising events.

Local McDonald's supplied refreshments for workers in fund-raising telethons, fed volunteer construction workers building a neighborhood swimming pool, entertained a local volunteer fire department, helped finance high school band trips to distant music contests and parades and served hot coffee and hot hamburgers to chilled Salvation Army Christmas Kettle workers.



Paul Lavalle, Director of McDonald's All-American Band, and Kathleen Arnett, 1971 Tournament of Roses Queen, greet New York City Mayor John V. Lindsay on the steps of City Hall. The Band serenaded Mayor Lindsay before stepping off for the traditional Macy's Thanksgiving Day parade, televised by both NBC-TV and CBS-TV.



Other McDonald's said "thank you" for community support by sending 20,000 children to a zoo and donating funds to the Zoological Society and by giving away tens of thousands of "Be Our Guest" cards, redeemable for free meals, to school patrol boys, returning servicemen, donors to charity, police and fire departments and others.

McDonald's restaurants always have been active supporters of local charitable and civic organizations, and in 1970, our licensees and Company-stores gave extra emphasis to ecological programs.

Hundreds of thousands of free meals were served during the year to Boy Scouts, students and other groups conducting litter pick-up drives, and automobile litter bags were presented to our customers.

Contestants in the coast-to-coast Clean-Air Car Race between college students were served meals at McDonald's across the nation.

Near the end of the year, an extremely successful holiday promotion was built around

50-cent Christmas gift certificates redeemable at any McDonald's.

The certificates were recommended especially for parents as stocking stuffers and physicians, dentists and other professional people to use as appropriate and economical remembrances to their small friends.

QSC for the 70's

Behind all our efforts to keep McDonald's before the public, and to keep our customers returning, continuing emphasis is placed on Quality, Service and Cleanliness—QSC.

McDonald's licensees are first taught how to maintain our—and their—reputation for QSC at Hamburger University, our training facility near Chicago.

Many of our stockholders are familiar with the modern electronic teaching equipment at Hamburger University, the site of our annual meeting.

In 1970, we graduated 714 students in 15 classes.

The vigor and the vitality of your Company is
renewed continually as McDonald's, in just fifteen
years, has become an essential and welcome part of
the American way of life.



The three weeks course on McDonald's operations, policies and standards is preceded and followed by in-store training. Refresher training and new training materials are distributed throughout the year by Hamburger University.

We sell no food, paper products or other supplies to our licensees. However, to ensure quality control, we establish rigid specifications for product uniformity.

No restaurant has a monopoly on the purchase of high grade supplies, so the secret of our success is pleasing our customers with high quality food, served quickly and with a smile.

Much of the credit for McDonald's QSC must go to the crewmen in stores throughout the country, who prepare hamburgers and fries with the special pride that comes from doing a job right, who greet our customers with a pleasant "May I help you, please?" and who send them on their way with a sincere "Thank you and come back again."

Many of them are young—so many, in fact, that your Corporation is one of the nation's largest part-time employers of high school students. For many of them it is their first job.

But each crewman is McDonald's to every customer he serves, and we are proud of the contribution each has made—and continues to make—to your Company's success.

Our able field service consultants provide the finest supervision of day to day operations in our industry.

Each consultant assists our licensees in training their crews, in management, in retail operations assistance and advice, and in purchasing.

In addition, the consultant inspects the stores in his area on a regular basis.

Each consultant is a direct—and personal—link between our licensees and one of our six regional offices located throughout the country.

Our business objective remains unchanged: Satisfy the Customer.

We will continue to offer high quality products, in clean inviting surroundings, at reasonable prices, with the best service possible, because *Quality, Service and Cleanliness* is the touchstone of our success.

Your Corporation's progress through the past 15 years has been heralded widely by the business community and by the public. We will continue to merit their confidence and the confidence of our customers and stockholders as we continue growing for the seventies.



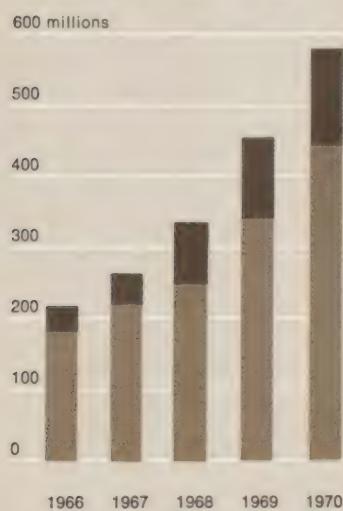




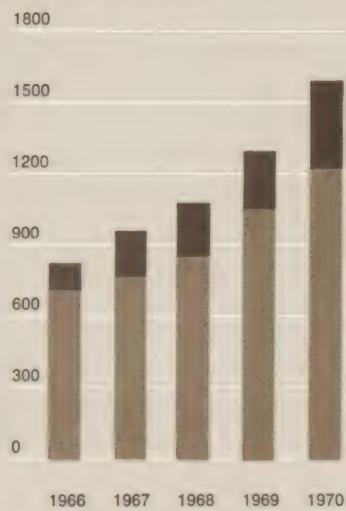
Growth profile

sales of all licensed

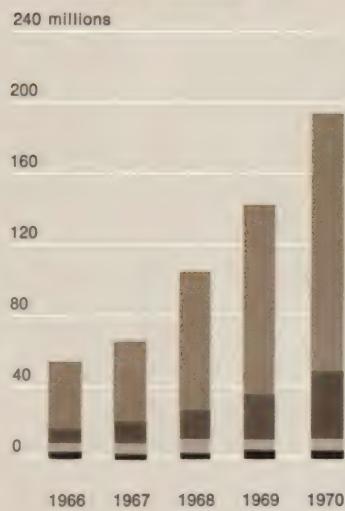
and Company-owned outlets



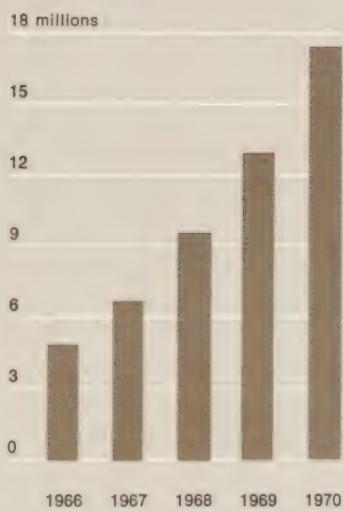
number of units



sources of revenue



net income



company-owned
licensed

company-owned
licensed

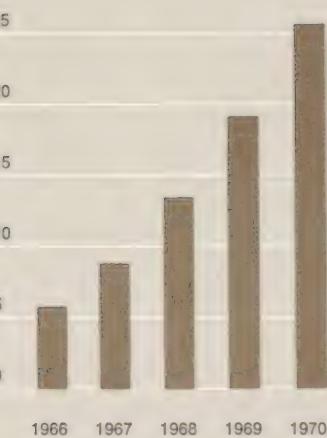
sales by company-owned units
rental income
service fees
location and license fees and other income





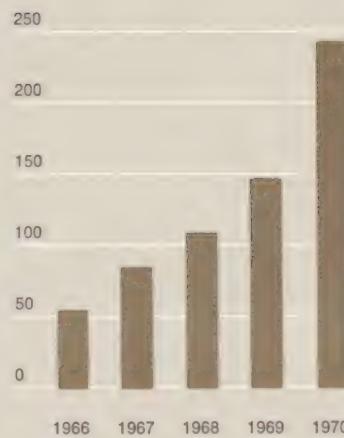
cash flow

30 millions



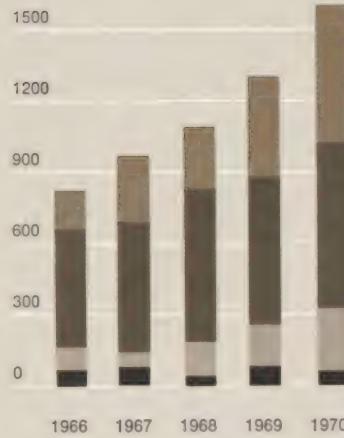
total assets

300 millions



real estate locations

1800



stockholders' equity

120 millions



■ sites owned
■ sites leased
■ sites ground leased
■ no real estate interest



Consolidated Balance Sheet

Assets	December 31, 1970 and 1969	
Current assets:		
Cash and certificates of deposit	\$ 23,275,231	8,015,598
Short-term investments, at cost which approximates market	2,143,281	4,283,982
Notes receivable	1,621,507	1,792,899
Accounts receivable and current security deposits (Note 6)	6,870,720	4,403,972
Inventories, at cost, which is not in excess of market	2,100,457	1,254,792
Prepaid expenses	2,261,080	1,802,403
Costs recoverable under financing agreements (Note 2)	34,402,186	14,962,944
Total current assets	72,674,462	36,516,590
Other assets and deferred charges:		
Security deposits on leased property (Note 6)	418,424	675,167
Investments in Canadian licensees, at cost (Note 1)		1,212,258
Other investments and receivables due after one year	5,741,176	3,251,508
Unamortized debt discount and expense	730,202	998,076
Deposits on land purchases	1,251,137	340,853
Miscellaneous	431,552	539,989
Total other assets and deferred charges	8,572,491	7,017,851
Property, plant and equipment, at cost (Note 5):		
Land	42,804,686	32,609,989
Buildings, leases and leasehold improvements	88,504,704	56,481,657
Equipment and signs for stores	29,455,549	18,519,237
Furniture, fixtures and other equipment	2,493,381	2,178,413
163,258,320	109,789,296	
Less accumulated depreciation and amortization	19,757,979	13,988,655
Net property, plant and equipment	143,500,341	95,800,641
Intangible assets:		
Franchise and operating rights (Note 3)	21,981,947	9,804,204
Other, at cost less accumulated amortization	86,458	72,129
Net intangible assets	22,068,405	9,876,333
	<u>\$246,815,699</u>	<u>149,211,415</u>

Liabilities and Stockholders' Equity

December 31, 1970 and 1969

Current liabilities:

Notes payable	\$ 13,756,953	626,371
Accounts payable and accrued liabilities	20,664,224	13,123,503
Federal income taxes	5,496,800	6,473,153
Long-term debt due within one year	8,390,414	4,530,742
	Total current liabilities	48,308,391
		24,753,769

Long-term debt due after one year (Note 5):

Mortgage notes and land purchase contracts payable	42,593,256	30,442,153
Notes payable—		
Banks	944,072	
Revolving credit	17,000,000	
Subordinated	1,469,191	1,750,478
Equipment purchases	7,208,674	4,332,292
Other	668,955	1,043,102
4 ¹ / ₄ % convertible subordinated debentures		19,953,000
	Total long-term debt	69,884,148
		57,521,025

Deferred federal income taxes (Note 4)	3,571,670	2,122,332
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Security deposits by lessees (Note 7)	16,697,455	13,767,623
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**Commitments and contingent liabilities
(Notes 1, 2, 6 and 11)****Stockholders' equity (Note 8):**

Series preferred stock, no par value—		
Authorized—300,000 shares		
Issued and outstanding—3,303 shares	3,303,000	3,303,000
Common stock, no par value—		
Authorized—25,000,000 shares		
Issued and outstanding—12,328,998 shares		
in 1970 and 11,182,455 shares in 1969	1,370,985	1,243,489
Additional paid-in capital	47,986,846	8,116,326
Retained earnings (Note 5)	55,693,204	38,383,851
	Total stockholders' equity	108,354,035
		51,046,666
	\$246,815,699	149,211,415

Consolidated Statement of Income

years ended December 31, 1970 and 1969

Revenues:			
Sales by Company-owned stores	\$146,817,016	107,340,123	
Rental income	32,120,143	23,937,391	
Service fees	9,971,025	7,531,907	
Initial location and license fees	1,664,470	1,849,959	
Gains on sales of Company-owned stores	1,793,878	1,317,429	
Interest income	613,510	819,913	
Other income—net	268,775	539,020	
	Total revenues	193,248,817	143,335,742
Costs and expenses:			
Company-owned stores—			
Cost of sales	55,489,469	40,869,311	
Rent	3,575,031	2,187,222	
Depreciation and amortization	3,874,630	2,595,273	
Other operating expenses	57,937,107	41,780,374	
Interest expense	797,332	478,508	
		121,673,569	87,910,688
Expenses applicable to rental income—			
Rent	7,866,865	6,635,043	
Depreciation and amortization	2,150,305	1,398,114	
Interest expense	2,112,419	1,417,487	
		12,129,589	9,450,644
General administrative and selling expenses	23,261,957	17,498,631	
Other interest charges (principally on long-term debt) (Note 5)	3,899,378	3,417,574	
	Total costs and expenses	160,964,493	118,277,537
Income before federal income taxes	32,284,324	25,058,205	
Provision for federal income taxes (Note 4)	14,593,000	11,965,000	
Net income	\$ 17,691,324	13,093,205	
Net income per share of common stock (Note 12)	\$ 1.48	1.16	

Consolidated Statement of Retained Earnings

years ended December 31, 1970 and 1969

Balance at beginning of year, as previously reported	\$	25,587,574
Restatement for companies acquired through poolings of interests in 1970 (Note 1)		<u>528,804</u>
Balance at beginning of year, as restated	38,383,851	26,116,378
Net income	17,691,324	13,093,205
Adjustments related to pooled businesses, arising principally from differences in fiscal years	(183,791)	<u>101,074</u>
	<u>55,891,384</u>	<u>39,310,657</u>
 Deduct:		
Dividends paid on Series preferred stock—		
\$60 per share annual rate	198,180	176,045
Distributions of pooled businesses prior to acquisition		467,881
Excess of cost over stated value of treasury stock retired by pooled businesses		282,880
	<u>198,180</u>	<u>926,806</u>
 Balance at end of year (Note 5)	<u>\$55,693,204</u>	<u>38,383,851</u>

Consolidated Statement of Source and Disposition of Working Capital

years ended December 31, 1970 and 1969

Source of working capital:

Net income	\$ 17,691,324	13,093,205
Charges against net income not involving working capital—		
Depreciation and amortization	6,725,651	4,278,647
Amortization of intangible assets and deferred charges	676,493	572,871
Deferred federal income taxes	1,467,000	751,494
	<u>26,560,468</u>	<u>18,696,217</u>
Adjustments relating to pooled businesses prior to dates of acquisition	(307,263)	131,361
	<u>26,253,205</u>	<u>18,827,578</u>
Issuance of securities—		
Common stock—		
Conversion of debentures	19,641,980	46,180
Acquisition of businesses	9,800,155	
Sale for cash	10,430,576	
Exercise of options	125,305	48,605
	<u>39,998,016</u>	<u>94,785</u>
Long-term debt—		
Mortgage notes—net increase	12,151,103	10,769,914
Revolving credit	17,000,000	
Other, excluding debentures—net increase	1,153,739	2,560,591
	<u>30,304,842</u>	<u>13,330,505</u>
Disposals (including sales and leasebacks) of property, plant and equipment (gains or losses included in net income)	4,216,469	1,987,898
Increase in security deposits by lessees	2,860,930	1,908,866
Total—source of working capital	<u>103,633,462</u>	<u>36,149,632</u>

Disposition of working capital:

Additions to property, plant and equipment	51,694,661	37,337,969
Property and other noncurrent assets (net) of purchased businesses (note 1)	16,554,785	3,937,005
Conversion of debentures	19,953,000	47,000
Dividends on preferred stock	198,180	176,045
Net increase in other noncurrent accounts	2,629,586	1,883,302
Total—disposition of working capital	<u>91,030,212</u>	<u>43,381,321</u>
Increase (decrease) in working capital	<u>\$ 12,603,250</u>	<u>(7,231,689)</u>

Notes to Consolidated Financial Statements

1 Acquisitions of businesses

The Company acquired 44 stores in 1970 and 22 stores in 1969, including related territorial rights, from licensees in transactions accounted for as poolings of interests. A total of 424,296 shares of common stock (valued at \$14,753,000) were issued in the 1970 acquisitions and 197,871 shares of common stock and 1,003 shares of 6% cumulative convertible preferred stock (valued in the aggregate at \$6,031,000) were issued in the 1969 acquisitions. The accounts of these acquired stores have been included in the consolidated financial statements for the entire 1969 and 1970 years. The Company is contingently liable for issuance of up to an additional 180,860 shares of its common stock, and may be entitled to return of up to 39,635 common shares for acquired stores, based on formulas related to future market price of the common stock. Based on the market value of the Company's common stock at December 31, 1970, no additional shares would be issuable and the Company would be entitled, under the formulas, to refunds of approximately 16,000 shares. An additional 313,309 shares may be issuable depending on future sales (as defined) of Hawaiian stores acquired in 1970.

In late June and July, 1970, the Company purchased 45% and 80% of the outstanding stock of its licensees in western and eastern Canada, respectively, for an aggregate 269,370 shares of its common stock (valued at \$9,800,000), increasing its ownership of these licensees to 78% and 100%, respectively. At the dates of these transactions, the Canadian licensees owned 33 stores in operation, 2 under construction and extensive territorial rights to use of the McDonald's System. Subsequent to December 31, 1970 the Company purchased the remaining 22% interest in its western Canada licensee for \$1,891,000. During 1970 the Company also purchased 2 stores from other licensees and sold 18 stores to licensees. In 1969, 16 stores were purchased from and 17 stores were sold to licensees.

Results of operations of purchased stores have been included in the consolidated financial statements since dates of acquisition, or in the case of the Canadian licensees mentioned above, the dates control was obtained. The Company's minority interests in the operations of the Canadian licensees prior to dates control was obtained were immaterial to the consolidated statements of income.

2 Financing agreements

The Company has mortgage and sale and leaseback commitments to finance costs of restaurant property and buildings and, in 1970, its corporate headquarters building under construction. Costs incurred as of December 31, 1970 (\$34,402,186) and December 31, 1969 (\$14,962,944) which are recoverable under these financing agreements have been shown as current assets, based on commitments obtained through February 12, 1971 and February 27, 1970, respectively. Under the sale and leaseback agreements referred to in this paragraph, the Company has, in most cases, the option, at the end of the initial lease term (generally 20 years), to purchase the property based upon fair market value, or to renew the lease for specified periods.

Costs to complete properties under construction at December 31, 1970 approximated \$8,286,000.

3 Intangible assets

In 1961, the Company acquired the underlying rights (previously covered by a 99 year franchise agreement) to the McDonald's System, trademarks and trade names for \$2,700,000 plus acquisition costs. An aggregate of \$636,000 through December 31, 1970 and \$510,000 through December 31, 1969 (including \$126,000 for 1970 and \$172,000 for 1969), representing proceeds from the sales of certain exclusive foreign territorial licenses, had been credited against the cost of these rights. No amortization is being provided for the balance of such rights (\$2,073,000 at December 31, 1970 and \$2,199,000 at December 31, 1969) as the Company feels there is no decrease in value.

In the 1970 acquisitions of Canadian licensees (see Note 1), the Company reacquired territorial licenses previously granted. Franchise and operating rights have been increased \$12,576,000 representing the allocated cost (excess of consideration paid over the net tangible assets of the acquired

companies) of the territorial licenses reacquired. No amortization is being provided on these reacquired territorial licenses as they are of unlimited term and the Company feels there is no decrease in value.

The Company and its subsidiaries have also reacquired limited term franchise rights from certain of its licensees. The costs of the franchise rights acquired are being amortized on a straight line method over their remaining lives. The unamortized amount totaled \$7,333,000 at December 31, 1970 and \$7,605,000 at December 31, 1969.

4 Federal income taxes

The Company and its subsidiaries follow the practice of filing separate federal income tax returns and have elected to receive multiple surtax exemptions.

Depreciation of buildings and restaurant equipment is provided for tax purposes principally on accelerated methods whereas for book and financial statement purposes depreciation is provided principally on a straight line basis. In addition, interest charges on interim bank loans to finance land acquisition and store construction are included in the cost of land and buildings for book and financial statement purposes (see Note 5), but are deducted currently for tax purposes. Provision has been made for deferred federal income taxes (\$1,467,000 in 1970 and \$751,494 in 1969) in recognition of these and certain other differences between income reported in the financial statements and income reported in the federal income tax returns.

5 Long-term debt and dividend restrictions

Mortgage notes and land purchase contracts (which mature over various terms to 19 years) relate to land and buildings purchased and/or constructed by the Company and its subsidiaries. These obligations are generally payable in monthly installments, with interest ranging from 5 1/2 to 10 1/2 % per annum. Land, buildings and improvements with aggregate costs of \$74,752,000 at December 31, 1970 and \$54,003,000 at December 31, 1969 were pledged as security for these obligations.

Prior to 1968, the Company entered into sale and lease-back arrangements requiring payment of rent equivalent to monthly amortization of cost, plus interest, generally over a fourteen year term. After five years, the Company has the option to purchase the property for the unamortized costs. At the conclusion of the lease, the title to the property reverts to the Company. The stores sold and leased back under these arrangements (\$10,097,000 at December 31, 1970 and 1969) are treated in the accompanying balance sheets as property, plant and equipment and the related rental obligations are included with mortgage debt.

Notes payable to banks include \$919,000 due May 15, 1972 bearing interest (7 1/4 % at December 31, 1970) at 1/4 % above the lender's prime rate.

The Company entered into a \$17,000,000 revolving credit agreement in December 1970 with a group of banks. Current loans under the agreement are due January 15, 1974, with interest (7% at December 31, 1970) at 1/4 % above the lenders' prime rate in the first year and 1/2 % above prime rate thereafter. The due date may be extended from time to time by mutual consent of the parties to the agreement. Among other things, the agreement requires the Company to maintain minimum levels of consolidated working capital and ratios of earnings to fixed charges, and restricts the payment of cash dividends and repurchase of capital stock to 50% of consolidated net income earned from January 1, 1970. At December 31, 1970, consolidated retained earnings of \$8,845,000 were not restricted under the revolving credit agreement.

The subordinated promissory notes are due December 31, 1981, and under certain conditions may be extended to December 31, 1991. Payments of principal, interest and premium are based on gross receipts of all stores (both Company and independently operated) according to certain formulas set forth in the note agreements, which formulas vary during three payment periods. Each quarter during the first two payment periods, a determination is made of .5% of gross receipts, of which .4% is payable currently to the noteholders and the remaining .1%, "deferred portion," becomes a fixed liability and is payable as explained below. The first period, which ended October 31, 1966, was the time which would have been required to

pay the original loan of \$2,700,000 with interest at 6% per annum if the entire .5% of gross receipts were applied as debt reduction. The second period, equal in time to the first period, will end September 30, 1971. The third period is the time required to pay the deferred portion at the rate of .4% of gross receipts. In any event, the balance of the deferred portion must be paid by December 31, 1991.

Payments made to the noteholders during the first period were allocable equally between principal and interest. Payments during the second period are allocable to principal on the basis of the greater of .2% of gross receipts each quarter, or the unpaid principal at the beginning of the second period divided by the number of quarterly payments to occur during the second period. The principal balance was fully paid in 1969 and all subsequent payments through September 30, 1971 (including \$2,935,000 for 1970 and \$2,153,000 for 1969) are allocated to interest. After that date the interest charges cease and payments will be charged against the "deferred portion," which amounted to \$2,338,191 at December 31, 1970 (\$869,000 is included in long-term debt due within one year in the accompanying balance sheet) and \$1,750,478 at December 31, 1969.

Notes payable for equipment purchases relate principally to equipment and signs at Company-owned stores. These notes are generally due in monthly installments and have maturities ranging up to five years, with interest at 5% to 9 1/4% per annum, except for \$617,000 of notes made by Canadian Subsidiaries (\$571,000 made prior to acquisition) on which the rates range from 12% to 16 1/2% per annum. Equipment and signs with aggregate costs approximating \$15,531,000 at December 31, 1970 and \$10,569,000 at December 31, 1969 were pledged as security for the equipment purchase notes.

Other notes payable at December 31, 1970 include \$444,534 of 7% notes payable to insurance companies due \$100,000 on November 1 of each of the years through 1974, with the balance payable November 1, 1975.

During 1969, 4 1/4% convertible subordinated debentures in the principal amount of \$47,000 were converted into 1,468 shares of common stock of the Company at \$32 per share. In January 1970, the outstanding debentures were called for redemption. Debentures in the principal amount of \$19,937,000 were subsequently converted into 622,761 shares of common stock of the Company at \$32 per share plus cash in lieu of fractional shares.

In 1969 and prior years, the Company used funds generated from operations to finance land acquisitions and construction of restaurants, prior to obtaining long-term mortgage or sale and leaseback financing of the completed stores. Beginning in 1970, the Company obtained interim bank loans to finance land acquisition and store construction and has included interest charges on the loans in the cost of the related land and buildings. Interest charges added to the cost of land and buildings during 1970 amounted to \$1,072,000.

Aggregate maturities of long-term debt for the five years ending December 31, 1975 are as follows: 1971—\$8,390,000; 1972—\$8,929,000; 1973—\$5,617,000; 1974—\$21,503,000; and 1975—\$4,388,000.

6 Lease commitments and lease deposits

At December 31, 1970, the Company and certain of its subsidiaries were lessees under approximately 950 ground leases or improved leases covering McDonald's store locations. Lease terms are generally for twenty years and, in many cases, provide for renewal options. The lessee generally is obligated for the cost of property taxes, insurance and maintenance. Minimum annual rentals under leases in effect at the end of 1970 range from \$11,600,000 to \$10,600,000 during the ten years 1971 through 1980, and from \$9,800,000 to \$1,400,000 during the ten years 1981 through 1990.

30 Security deposits made by the Company and its subsidiaries under improved leases for store locations are generally refundable at the end of

the tenth year of the lease. Of the deposits at December 31, 1970, \$706,000 were refundable in 1971 and the balance as follows: 1972—\$215,000; 1973—\$33,000; and subsequent years—\$170,000.

The Company and its subsidiaries also lease certain office space under leases expiring on various dates through 1982. Annual rentals amount to \$465,000.

7 Rents receivable and deposits by lessees

Certain of the leased properties referred to in the preceding Note and other real estate owned by the Company have been subleased or leased to store operators, who are obligated for the cost of property taxes, insurance and maintenance. Sublease terms are generally for twenty years. Minimum annual rentals receivable from store operators during the ten years 1971 through 1980 range from \$24,900,000 to \$23,600,000. The subleases or leases with store operators also provide for percentage rental payments based on sales. For the year 1970, the percentage rental income amounted to \$11,565,000 (\$8,976,000 for 1969).

Lease security deposits received from the store operators (sublessees or lessees) are generally refundable 50% at the end of the fifteenth year and the balance at the termination of the lease. As of December 31, 1970, deposit refunds which will become due for all years through 1976 total \$1,286,000. Refunds due for the individual years 1977 through 1989 range from \$663,000 to \$1,954,000. Refunds of \$61,000 at December 31, 1970 (\$139,000 at December 31, 1969) due in one year have been included with accounts payable in the accompanying balance sheets.

8 Capital stock and additional paid-in capital

Details of the Series preferred stock outstanding are as follows:

	Authorized shares	Shares	Amount	Issued and outstanding
6% Cumulative Convertible—				
Series A	2,500	2,300	\$2,300,000	
Series B	373	373	373,000	
Series C	158	158	158,000	
Series D	472	472	472,000	
			\$3,303,000	

Each of the Series A through D preferred stock has one vote per share and a liquidation preference of \$1,000 per share plus accrued dividends.

The Series A preferred stock is redeemable commencing July 1, 1973 at \$1,000 per share plus accrued dividends. On July 1, 1978, the Company is required to redeem the Series A stock then outstanding at that same price. Series B, C and D preferred stocks are redeemable July 1, 1974 through December 31, 1974 and after June 30, 1975, in each case at \$1,000 per share plus accrued dividends.

From January 1, 1973 through June 30, 1973 for Series A and January 1, 1974 through June 30, 1974 for Series B, C and D, each share of preferred stock is convertible into that number of shares of common stock equal to the quotient derived by dividing \$900 by the greater of \$12.50 or the then current market price (as defined) of the Company's common stock. From July 1, 1973 for Series A and July 1, 1974 for Series B, C and D, the stocks are nonconvertible for a period of six months. Thereafter, each share is convertible into that number of shares of common stock equal to the quotient derived by dividing \$1,150 by the greater of \$5 or the then current market price (as defined) of the Company's common stock.

In December 1970, the Company issued 250,000 shares of common

stock which were sold in a public offering. A summary of changes in common stock outstanding and additional paid-in capital during 1969 and 1970 follows:

	Common stock	Additional paid-in capital
	Shares	Amount
Balance at January 1, 1969:		
As previously reported (after giving retroactive effect to a 2 for 1 stock split in 1969)	10,754,921	\$1,195,947
Restatement for businesses acquired in poolings of interests in 1970 (Note 1)	424,296	47,181
As restated	11,179,217	1,243,128
Conversion of debentures (Note 5)	1,468	163
Exercise of stock options (Note 9)	1,770	198
Balance at December 31, 1969	11,182,455	\$1,243,489
Conversion of debentures (Note 5)	622,761	69,251
Acquisition of stock of Canadian licensees (Note 1)	269,370	29,954
Sale of common stock	250,000	27,800
Exercise of stock options (Note 9)	4,412	491
Balance at December 31, 1970	12,328,998	\$1,370,985
		47,986,846

At December 31, 1970, a maximum of 1,547,627 shares of common stock were reserved for (1) conversion of preferred stock (759,690 shares), (2) issuance under the stock option plan (293,768 shares) and (3) contingent issuance of additional shares in connection with acquisitions of businesses referred to in Note 1 (494,169 shares).

9 Stock options

Under a stock option plan adopted in 1968 and amended in 1970, options to purchase a total of 300,000 shares of the Company's common stock may be granted to certain officers and key employees at prices not less than the fair market value of the stock at dates of grant. The plan terminates on April 30, 1973, but may be sooner terminated by the Board of Directors without affecting options then outstanding. Options become exercisable in five equal annual installments commencing on the date of grant and expire five years from that date.

Information as to options at December 31, 1970 and 1969 and for the years ended those respective dates is as follows:

	Number of shares	
	1970	1969
At December 31—		
Outstanding (at prices ranging from \$26 to \$40)	148,688	146,540
Exercisable	73,768	48,850
Reserved for future options under the plan	145,080	51,640
During the year—		
Granted	16,700	46,050
Canceled	10,140	14,140
Exercised (at prices ranging from \$26 to \$32)	4,412	1,770

10 Profit sharing plan

The Company has a trustee savings and profit sharing plan covering full time domestic salaried employees after two years of service. Company contributions (\$600,000 for 1970 and \$450,000 for 1969) are determined by the Board of Directors and are limited to the maximum amount deductible for federal income tax purposes.

11 Litigation

A subsidiary of the Company is a defendant in a suit claiming damages for alleged interference with brokerage services provided by plaintiff to a supplier. In the opinion of the Company's General Counsel, based on the information currently available, there will be no monetary damages assessed against the subsidiary as a result of this action.

12 Net income per share

Net income per share is computed based on the average number of common shares outstanding during each year, adjusted to give effect to stock splits and shares issued in connection with poolings of interests (Note 1), and is after recognition of annual dividend requirements on the Series preferred stock, as follows:

	1970	1969
Net income	\$17,691,324	13,093,205
Annual dividend requirements on Series preferred stock—\$60 per share	198,180	198,180
Net income applicable to common stock	\$17,493,144	12,895,025
Average number of common shares outstanding for the year	11,858,770	11,101,497
Net income per share	\$1.48	\$1.16

Assuming exercise of stock options at dates granted, and conversion of the 4 1/4% subordinated debentures at the beginning of each of the years, no material dilution of reported net income per share would have resulted for 1970 or 1969. Assumed conversion of outstanding preferred stock, based on current market prices of the common stock, and issuance of shares contingently issuable in connection with the acquisition of stores in Hawaii (Note 1), based on projected sales and earnings of the Hawaiian stores, would not have a dilutive effect.

Report of Certified Public Accountants

The Board of Directors and Stockholders
McDonald's Corporation

We have examined the accompanying consolidated balance sheet of McDonald's Corporation and subsidiaries at December 31, 1970 and the related consolidated statements of income, retained earnings and source and disposition of working capital for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the statements mentioned above present fairly the consolidated financial position of McDonald's Corporation and subsidiaries at December 31, 1970 and the consolidated results of their operations and the source and disposition of their consolidated working capital for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

ARTHUR YOUNG & COMPANY

Chicago, Illinois
March 1, 1971





